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SUBJECT: "We Feed Waste, Not Oil"

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11. SUMMARY: Guangzhou GISE-MBA New Plastics Technology General Manager Eric Wang and MBA Polymers Operations Manager Ron Rau told Special Envoy to China and the Strategic Economic Dialogue Ambassador Alan F. Holmer during a visit to their factory that the economies of scale have made them an efficient reprocessor of plastics in China. Nearly 95% of what GMP recycles becomes new products, with GMP turning plastic waste into resins and GMP's partner, Guangzhou Steel recycling non-plastic waste in its plant. There are difficulties operating in China (VAT, tariffs, energy shortages) but with China the largest consumer, and tenth largest producer, of plastics and planning to begin a plastics recycling program, the logic of location was obvious. END SUMMARY

#### Background

12. (U) Guangzhou GISE-MBA New Plastics Technology Co., Ltd. (GMP), a joint venture between U.S. electronics waste recycler MBA Polymers Inc (MBA) and steel recycler Guangzhou Iron & Steel Enterprises (GISE), went into operation on November 2005. The \$12 million plant--located in Guangzhou's Nansha Development Zone -- is MBA's first attempt at large scale recycling of consumer electronics and household appliances. It has a forty thousand ton reprocessing capacity, producing 26,000 tons of recycled plastics.

#### One's Trash is Another's Goldmine

13. (U) Wang told Ambassador Holmer and his delegation (including the Consul General, SED Managing Director Dan Wright, Embassy Beijing Financial Attach David Loevinger and Congen officers) that many consumer electronics and household appliances, which are cheaper to dispose of than to repair, can be recycled and the plastic resins captured used in the production of new products. GMP's business is to recycle the sixty percent of consumer appliance waste that most metal recyclers, which want to extract just the rare and precious metals, simply dispose of in landfills. GMP's ability to extract the three most common plastics from these products - polypropylene (PP), high impact polystyrene (HIPS), and acrylonitrile butadiene styrene (ABS) - has attracted interest from large consumer appliance and electronics firms like GE, Flextronics, and OEMS in south China.

Cleaner, Greener, and Cheaper:  
Feeding Waste, Not Oil

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14. (U) According to Rau, there are almost 10,000 plastic recyclers in China. These small and medium sized recyclers use a labor-intensive process to retrieve different types and grades of plastic from mixed plastic waste. Wang remarked that this process brings laborers into frequent contact with dangerous chemicals and results in pollutants that are often dumped into the environment. Rau added that this process allows recyclers to pick out only a few types of plastic and is very inefficient. In contrast, GMP uses a revolutionary technology that amounts to "above-ground mining." Developed by MBA after \$30 million in investment and thirteen years of research, the process uses a combination of density separation and MBA's proprietary technology to separate plastics waste from non-plastics waste. GMP then cleans the plastics and processes it into BB-sized pellets that consumer electronics and appliance makers inject into molds to make keyboards, computer monitor shells, and other plastic parts. Rau said that nearly 95% of what GMP recycles becomes new products. GMP's partner, Guangzhou Steel, recycles the non-plastic waste in its plant.

15. (U) Aside from being greener, this process has other advantages. Traditional production of "virgin" plastic requires refining crude oil and using chemicals to create the final product - a process that is energy intensive and polluting. GMP only uses 10% of the energy used by a virgin plastics producer. GMP representatives' boast that "we feed waste, not oil" to make plastics.

16. (U) Wang told Ambassador Holmer that production of GMP plastics is cheaper than virgin plastics. GMP imports treated plastics waste from the European Union and Japan. (Note: Japan and the European Union mandate that all consumer appliance and electronics be treated before disposal. Consumers pay for this waste to be collected, washed, and shredded before disposal.) While the vast majority comes

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from Japan and the European Union, 10 percent still comes from the United States. GMP usually buys the plastics for as little as \$100 a ton or may even get it free. The low cost of the raw materials and plant start-up - an MBA plant is about half the price of a virgin plastics plant - enables GMP's products to be an economical alternative to virgin plastics.

Any Color You Want As Long As It Is Black  
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17. (U) There are drawbacks to using recycled plastics. As distinct from virgin plastics which can take on a variety of colors, GMP's plastics can only be in black or gray as the mixture of colored plastics prevents the use of different tints. Recycled plastic is also slightly lower in quality. However, Rau noted positively, most of the properties of the original plastic are maintained.

Why Locate a Recycling Plant in China?  
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18. (U) In response to Ambassador Holmer's question about why MBA chose China to start its first plant in China, Rau responded that, to be economical, MBA must be close to Original Equipment Manufacturers (OEM) and others that utilize plastic. In addition, China is the largest consumer and tenth largest producer of plastics and plans to begin a plastics recycling program. Rau and Wang added that GMP's entire output is sold within China.

19. (U) Was MBA planning to operate a large scale plant in the United States? Rau said this would prove too costly; there are only a few plastics recycling programs in the U.S. and these programs supply little of the raw material needed for MBA's plant to be cost-effective. At the same time, collecting, washing, and shredding the plastic waste would be expensive and difficult for MBA do on its own. On top of that, adding to the expense are labor and regulation compliance costs. As a result, Rau said, MBA's California plant remains only a pilot program.

Of Course, Issues Remain  
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¶10. (U) As for difficulties operating in China, Wang and Rau said that, while local government officials do not present too many problems, Chinese Customs officials have arbitrarily declared each ton they use to be worth \$430 or roughly 4 times the actual value when they assess the value-added tax (VAT), 17.8%; an additional tariff of 8.6% is also added. COMMENT: Using the values above, a rough calculation shows that this raises GMP's pre-production costs to 21.4 cents a pound not including transportation costs. The 2007 spot price for a pound of Colored Pre-consumer PS Regrind is 66 cents a pound. END COMMENT.

¶11. (U) Energy shortages are also problematic. GMP may receive as little as an hour's notice before power is cut off; this can happen 3-4 days/week and the situation is likely to persist into the future. Unlike many companies in south China, GMP has yet to purchase a generator. Rau also remarked that he thought the Chinese government could enforce regulations more uniformly. To achieve that end, he suggested trying to get the Environmental Protection Bureau to be more active in enforcing standards with the smaller recyclers which frequently pollute.